

## Second Quarter 2019 Market Commentary

July 2, 2019

### Key Takeaways:

- Uncertainty about trade and geopolitical issues sparked volatility during the quarter.
- The Federal Reserve (Fed) helped calm nerves with references to potential rate cuts.
- Economic growth is slowing but still chugging along thanks to a healthy consumer.
- Commodities such as oil, copper and gold sent mixed signals about the state of the global economy.

### The Fed and Trade Dominate Headlines

After a virtual straight-line upward move in global equity markets through the first four months of the year, tariffs reappeared as a tangible risk in May. Global stocks struggled amid rising trade tensions, with U.S. equities pulling back approximately 7% from their record highs achieved at the end of April. Citing dissatisfaction with trade negotiations, President Trump increased the tariff rate from 10% to 25% on \$200 billion of Chinese imports and contemplated placing tariffs on the remaining \$325 billion of Chinese goods. The administration also threatened to impose 5% tariffs on all Mexican imports if the Mexican government didn't implement meaningful policies to stop the flow of illegal immigrants to the U.S.

As has often occurred during this 10-year U.S. bull market, the Federal Reserve rode to the rescue in June. Chairman Powell provided multiple reassurances that the Fed's "overarching goal" is to sustain this decade-long expansion. With the tightening cycle clearly finished, many investment analysts now expect at least two 0.25% (25 basis points) rate cuts by year-end. Other central banks around the world have indicated they would also resume or intensify their monetary easing policies. Equity markets rebounded in June on these dovish signals and the administration's decision to hold off on imposing tariffs on Mexico.

### Uncertainty Impacts Global Growth

Easing monetary policies are a direct response to the slowdown in both U.S. and global economic growth. Actual and threatened U.S. tariffs are creating enough supply chain and cost uncertainty that businesses are reducing their purchases of capital equipment. Purchasing managers surveys have deteriorated with many countries signaling contraction in their manufacturing sectors.

The service sectors of most economies are generally holding up well, especially in the U.S., where strong job and wage growth have bolstered consumer balance sheets. However, the service sector is often led by the state of manufacturing, so the consumer will ultimately be impacted through a contraction in jobs and wages if capital spending turns negative over the coming months.

### Downtrend in Bond Yields Persists

Global fixed-income markets experienced declining yields throughout the quarter, and an inverted yield-curve remained a concern here in the U.S. as the fed funds rate and three-month Treasury bill continued to yield more than the 10-year Treasury note. This historically unusual occurrence may be a predictor of Fed rate cuts of at least 0.50% (50 basis points) by year-end. A narrative is developing that the equity and bond markets are moving against each other, and investors must choose which market is correct in their assessment of future economic growth. An alternate analysis is that lower bond rates are a reaction to the lack of significant inflationary pressures, not a harbinger of an oncoming recession. Narrowing spreads in high-yield bond markets seem to confirm that speculative fixed-income investors aren't currently concerned about a recession-induced spike in default rates.

Index Performance Data							
	2Q 2019	YTD	3-Year Annualized		2Q 2019	YTD	3-Year Annualized
<b>Equity Index Returns</b>				<b>Fixed Income Returns</b>			
Dow Jones	3.21%	15.40%	16.80%	Barclays Aggregate Bond Index	3.08%	6.11%	2.31%
S&P 500	4.30%	18.54%	14.19%	Barclays 1-10 Year Municipal Bond	1.64%	3.88%	2.06%
Russell 2500	2.96%	19.25%	12.34%	Merrill Lynch High Yield Master II	2.57%	10.16%	7.54%
MSCI ACWI	3.61%	16.23%	11.62%	Citi World Government Bond Index	2.97%	5.78%	2.53%
MSCI EAFE	3.68%	14.03%	9.11%	JPM Emerging Markets Bond Index Global	3.76%	10.60%	4.65%
MSCI Emerging Markets	0.61%	10.58%	10.66%	Barclays TIPS	2.86%	6.15%	2.08%
				Citi U.S. 3-Month T-Bill	0.61%	1.21%	1.36%
<b>Other Index Returns</b>							
MSCI U.S. REIT	1.29%	17.77%	4.14%	Source: FactSet *HFRI FoF Index Performance as of 5/31/2019 **Returns are total returns except for the Dow Jones & MSCI US REIT (price returns) ***Citi World Government Bond Index is the hedged index			
Bloomberg Commodity Index	-1.19%	5.06%	-2.18%				
HFRI FoF Index	0.06%	4.69%	3.88%				

### Commodities Take Investors on Bumpy Ride

The commodities markets were rather volatile during the quarter and are giving somewhat mixed signals about the state of the global economy.

- Oil.** Prices were basically flat for the quarter, masking the notable intra-quarter volatility. Oil prices spiked early in the quarter, gapped down at the beginning of June, and then recovered to close around the same levels at which they began. Surprisingly strong and adaptable U.S. production continues to erode the power of OPEC and Russia. Additionally, geopolitical flareups in the Middle East, like recent tensions with Iran, generally don't have the same impact on oil prices as they once did. Markets have become more confident that the U.S. can fill any meaningful gaps in supply. On the flip side, concerns that trade conflicts will slow global demand have the potential to drive prices down sharply. One thing has become apparent in this changing supply/demand equation. While lower prices are generally better for net oil consuming countries like the U.S. and China, any sharp decline often negatively effects U.S. growth due to the increasing impact the energy sector has on the economy.
- Industrial metals.** Copper and other metals, which may be better indicators of global demand, declined during the quarter. Chinese demand slowed appreciably due to the impact of U.S. tariffs and the strategic transition from an investment-driven economy to one that is more balanced through increased consumer spending. Recognizing these challenges, the Chinese government initiated sizeable fiscal policy initiatives, combining tax cuts with targeted spending increases meant to control the seemingly inevitable economic slowdown. The ultimate effectiveness of these policies will be reflected not only in the equity markets but also in commodities markets where China has become a more meaningful participant.
- Gold.** After meandering at flat levels through much of the quarter, gold prices spiked 10% in June thanks in part to anticipated rate cuts. While gold is viewed primarily as an inflation hedge, some investors choose it as an alternative to the dollar when concerns about excess money supply arise. Intense global competition, slow population growth, and technological advances have all combined to restrain inflation expectations for at least the next few years. However, overzealous central banks, which continue to provide historic levels of monetary ease, could drive investors to diversify their portfolios into real assets. The sharp rebound in cryptocurrencies this quarter is another interesting manifestation of this dynamic.

### Looking Ahead

As we move into third quarter, investors should keep a watchful eye on a few issues. Trade and heightened geopolitical tensions are well known, but difficult to quantify. Political risks will come into sharper focus as contentious debt ceiling negotiations could potentially lead to another U.S. government shutdown. Earnings growth, which was expected to slow from its explosive 2018 rate, could possibly turn negative if businesses remain hesitant to spend due to trade tensions and the impact of a strong dollar.

These risks could be offset by potential interest rate cuts, the expected positive impact of China's fiscal stimulus, and the anticipated ongoing ability of the 2017 tax reform to drive more productivity-enhancing capital spending, which could prolong this market-friendly environment of non-inflationary, economic expansion.

For more investment perspectives, contact a Cerity Partners advisor or visit [ceritypartners.com](http://ceritypartners.com).

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## First Quarter Market Summary

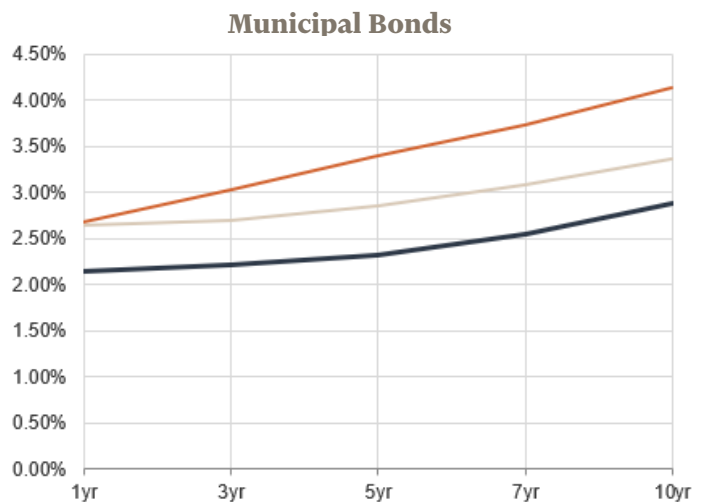
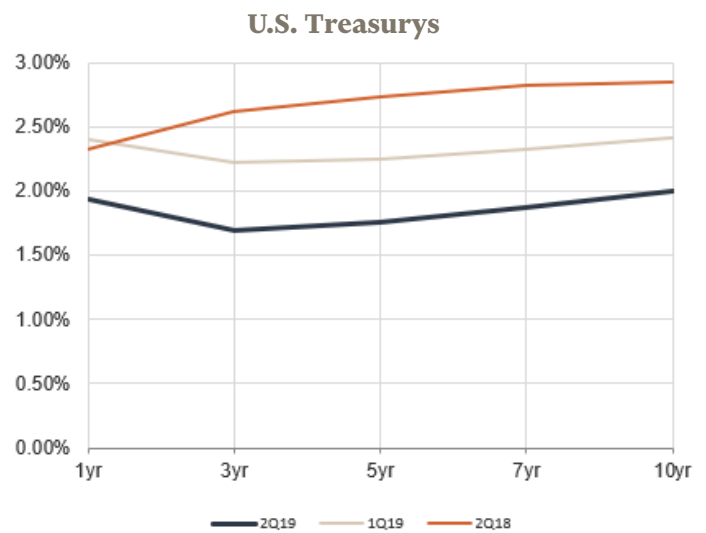
							Annualized			
		3Q18	4Q18	1Q19	2Q19	YTD	1-Year	3-Year	5-Year	10-Year
<b>U.S. Equity Benchmarks</b>		<b>Price</b>								
Dow Jones Industrial	26,600	9.63	(11.31)	11.81	3.21	15.40	12.20	16.80	12.29	15.03
NASDAQ Index Composite	8,006	7.41	(17.29)	16.81	3.87	21.33	7.78	19.56	13.97	17.19
S&P 500	2,942	7.71	(13.52)	13.65	4.30	18.54	10.42	14.19	10.71	14.70
Russell 1000 (Large Cap)	1,629	7.42	(13.82)	14.00	4.25	18.84	10.02	14.15	10.45	14.77
Russell 1000 Growth	1,587	9.17	(15.89)	16.10	4.64	21.49	11.56	18.07	13.39	16.28
Russell 1000 Value	1,255	5.70	(11.72)	11.93	3.84	16.24	8.46	10.19	7.46	13.19
Russell Mid Cap	2,234	5.00	(15.37)	16.54	4.13	21.35	7.83	12.16	8.63	15.16
Russell Mid Cap Growth	1,149	7.57	(15.99)	19.62	5.40	26.08	13.94	16.49	11.10	16.02
Russell Mid Cap Value	2,054	3.30	(14.95)	14.37	3.19	18.02	3.68	8.95	6.72	14.56
Russell 2000 (Small Cap)	1,567	3.58	(20.20)	14.58	2.10	16.98	(3.31)	12.30	7.06	13.45
Russell 2000 Growth	1,023	5.52	(21.65)	17.14	2.75	20.36	(0.49)	14.69	8.63	14.41
Russell 2000 Value	1,806	1.60	(18.67)	11.93	1.38	13.47	(6.24)	9.81	5.39	12.40
<b>S&amp;P GICS Sectors</b>		<b>Weight</b>								
Consumer Discretionary	10.2%	8.18	(16.42)	15.73	5.28	21.84	10.17	16.74	13.97	19.72
Consumer Staples	7.3%	5.70	(5.21)	12.01	3.72	16.18	16.39	4.84	8.39	12.83
Energy Sector	5.0%	0.61	(23.78)	16.43	(2.83)	13.13	(13.25)	0.20	(5.54)	5.01
Financials	13.1%	4.36	(13.11)	8.56	8.00	17.24	6.31	16.42	10.58	13.09
Health Care	14.2%	14.53	(8.72)	6.59	1.38	8.07	12.99	10.82	10.61	15.52
Industrials	9.4%	10.00	(17.29)	17.20	3.57	21.38	10.43	12.46	9.28	15.59
Information Technology	21.5%	8.80	(17.34)	19.86	6.06	27.13	14.34	26.20	18.53	18.57
Materials	2.8%	0.36	(12.31)	10.30	6.31	17.26	3.20	10.38	5.44	11.39
Communication Services	10.2%	9.94	(13.19)	13.98	4.49	19.09	13.66	0.58	5.34	9.85
Utilities	3.3%	2.39	1.36	10.84	3.48	14.70	19.03	8.05	10.00	12.17
<b>Global Equity Benchmarks</b>		<b>Price</b>								
MSCI ACWI	2,178	4.28	(12.75)	12.18	3.61	16.23	5.74	11.62	6.16	10.15
MSCI AC World x-USA	285	0.71	(11.46)	10.31	2.98	13.60	1.29	9.39	2.16	6.54
MSCI EAFE	1,922	1.35	(12.54)	9.98	3.68	14.03	1.08	9.11	2.25	6.90
MSCI EAFE Growth	1,670	1.53	(13.33)	12.04	5.73	18.47	4.24	9.68	4.39	8.23
MSCI EAFE Value	2,692	1.18	(11.70)	7.92	1.54	9.58	(2.10)	8.46	0.05	5.50
MSCI Emerging Markets	1,055	(1.09)	(7.46)	9.92	0.61	10.58	1.21	10.66	2.49	5.81
MSCI BRIC	319	(4.12)	(5.30)	13.99	(0.22)	13.74	3.27	14.42	4.68	4.84
MSCI Japan	3,128	3.68	(14.23)	6.66	1.02	7.75	(4.19)	8.06	4.47	5.85

		Annualized								
		3Q18	4Q18	1Q19	2Q19	YTD	1-Year	3-Year	5-Year	10-Year
<b>Interest Rates</b>	<b>Yield</b>									
Prime Rate	5.50	1.24	1.31	1.33	1.34	2.69	5.32	4.50	4.03	3.64
3m Treasury Bill	2.12	0.51	0.59	0.59	0.58	1.17	2.29	1.42	0.89	0.48
U.S. LIBOR 3m	2.32	0.58	0.66	0.66	0.62	1.28	2.54	1.76	1.20	0.77
U.S. Treasury 3m	1.69	0.68	0.71	0.60	0.52	1.12	2.53	1.94	1.56	1.17
U.S. Treasury 10yr	2.00	0.73	0.76	0.65	0.58	1.23	2.74	2.46	2.33	2.48
U.S. Treasury 30yr	2.53	0.76	0.81	0.73	0.69	1.43	3.03	2.91	2.89	3.29
<b>Fixed Income</b>	<b>Price</b>									
Citi 3-month T-bill	649	0.50	0.57	0.60	0.61	1.21	2.30	1.36	0.84	0.46
BC U.S. Gov't & Related 5-7	105	0.42	2.03	3.37	3.19	6.67	9.29	2.94	3.19	4.37
BC Municipal Bond 1-10 Year	112	(0.07)	1.61	2.21	1.64	3.88	5.49	2.06	2.55	3.37
BC TIPS	104	(0.82)	(0.42)	3.19	2.86	6.15	4.84	2.08	1.76	3.64
BC Aggregate	105	0.02	1.64	2.94	3.08	6.11	7.87	2.31	2.95	3.90
ML High Yield Master II	99	2.44	(4.67)	7.40	2.57	10.16	7.58	7.54	4.70	9.22
Citi World Gov't Bond Index	908	(0.56)	2.38	2.73	2.97	5.78	7.69	2.53	3.97	3.91
JPMorgan EMBI Global	852	1.87	(1.19)	6.59	3.76	10.60	11.32	4.65	4.47	7.41
<b>Real Estate</b>	<b>Price</b>									
MSCI U.S. REIT	1,221	1.09	(6.72)	16.27	1.29	17.77	11.06	4.14	7.81	15.55
FTSE EPRA/NAREIT Europe	1,749	(1.95)	(10.04)	11.73	(2.50)	8.94	(3.91)	5.46	3.00	9.96
<b>Commodities</b>										
Bloomberg Commodity Index	80	(2.02)	(9.41)	6.32	(1.19)	5.06	(6.75)	(2.18)	(9.15)	(3.74)
Energy	36	4.39	(25.78)	15.93	(4.56)	10.64	(14.28)	(0.52)	(18.19)	(11.87)
Agriculturals	42	(5.45)	0.15	(3.18)	4.50	1.18	(4.18)	(10.27)	(9.75)	(2.91)
Livestock	27	2.88	0.69	4.69	(11.01)	(6.84)	(3.50)	(2.54)	(7.14)	(2.08)
Softs	32	(12.52)	0.73	0.42	(0.29)	0.13	(11.77)	(14.31)	(11.65)	(3.74)
Industrial Metals	113	(6.88)	(8.69)	12.85	(7.23)	4.68	(10.99)	6.40	(2.98)	(0.43)
Precious Metals	172	(6.00)	6.82	0.02	7.15	7.17	7.61	(0.75)	(1.27)	3.00
<b>Private Equity / Hedge Funds</b>	<b>Price</b>									
Red Rocks Global Listed PE Index	12	5.08	(18.56)	14.17	4.78	19.62	2.38	12.80	5.47	11.76
HFRI FOF Index	6,217	0.24	(4.94)	4.63	0.06	4.69	(0.70)	3.61	2.11	3.11
<b>Currencies</b>	<b>Price</b>									
ICE Dollar Index	96	0.52	1.09	1.16	(1.19)	(0.04)	1.58	0.06	3.80	1.84
Euro / U.S. Dollar	1	(0.52)	(1.58)	(1.78)	1.42	(0.38)	(2.46)	0.83	(3.62)	(2.06)
Pound / U.S. Dollar	1	(1.23)	(2.34)	2.31	(2.33)	(0.07)	(3.60)	(1.62)	(5.73)	(2.54)
U.S. Dollar / Yen	108	2.55	(3.41)	0.88	(2.66)	(1.80)	(2.73)	1.65	1.24	1.11

Source: FactSet

Note: HFRI FOF Index returns as of 5/31/2019

Global Equity Valuation Summary	1Q19	2Q19	QoQ
<b>S&amp;P 500</b>			
Price	2,834.40	2,941.76	107.36
Trailing P/E	18.27	18.89	0.62
Est P/E	16.49	16.79	0.31
Trailing 12m Earnings	152.28	152.53	0.25
Est Forward 12m Earnings	172.31	175.64	3.33
Implied 1yr Earnings Growth	13.15%	15.15%	2.0%
<b>Russell Mid Cap</b>			
Price	53.95	55.87	1.92
Trailing P/E	18.44	19.24	0.80
Est P/E	16.73	17.10	0.36
Trailing 12m Earnings	2.59	2.55	(0.04)
Est Forward 12m Earnings	3.23	3.28	0.05
Implied 1yr Earnings Growth	24.81%	28.68%	3.9%
<b>Russell 2000</b>			
Price	153.09	155.50	2.41
Trailing P/E	16.72	17.07	0.35
Est P/E	21.09	20.97	(0.12)
Trailing 12m Earnings	4.42	4.41	(0.01)
Est Forward 12m Earnings	7.32	7.50	0.18
Implied 1yr Earnings Growth	65.64%	69.96%	4.3%
<b>MSCI EAFE</b>			
Price	64.86	65.73	0.87
Trailing P/E	13.99	14.81	0.82
Est P/E	13.34	13.61	0.28
Trailing 12m Earnings	4.54	4.32	(0.22)
Est Forward 12m Earnings	4.87	4.84	(0.03)
Implied 1yr Earnings Growth	7.23%	11.89%	4.7%
<b>MSCI EM</b>			
Price	42.92	42.91	(0.01)
Trailing P/E	12.62	13.19	0.56
Est P/E	12.10	12.22	0.12
Trailing 12m Earnings	3.29	3.10	(0.19)
Est Forward 12m Earnings	3.56	3.53	(0.03)
Implied 1yr Earnings Growth	8.25%	13.90%	5.6%



Source: FactSet

Notes: Municipal yields tax adjusted, assumes a 37% tax rate

Munis use the Bloomberg Barclays Municipal GO indexes and yield to worst

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